Senate Bill 861

Changing the Distribution Rate for
The Children's Trust Fund

Children's Trust Fund
Protecting Michigan's Children

Purpose of Presentation

This presentation is focused on the following:

- Provide an overview of the current distribution policy for the Children's Trust Fund
- Present an alternative approach to more properly align the distribution policy with standards used by established endowment funds
- Propose an approach that will protect the original corpus of the fund while providing the Child Abuse and Neglect Prevention Board with a more consistent year to year distribution from the Trust to properly fulfill its mission of protecting the children of the State of Michigan

Background: The Children's Trust Fund

- The Child Abuse and Neglect Prevention Board (the Board) was created through Public Act 250 to serve as a voice for Michigan's children and families and promotes their health, safety, and welfare by funding effective local programs and services that prevent child abuse and neglect

- The Board supports programs through the Children's Trust Fund as created through Public Act 249 and is supported by a number of ongoing funding sources such as the income tax check off box, the license plate program, and the newly created heirloom birth certificate program

- Approximately 1/3 of the funding for programs comes from distributions from the permanently restricted portion of the Children's Trust Fund

Background: The Children's Trust Fund

- The Board makes annual distributions from the Children's Trust Fund in accordance in Public Act 249 and spends 50% of the funds received from the tax check off, the prior year proceeds from the other Operating Programs, plus an amount from the permanent funds of the Children's Trust Fund as stipulated by Public Act 249

Current Distribution of Funds

- Public Act 249 states that as related to the permanent funds of the Children's Trust Fund, the Board shall distribute "interest and earnings, excluding unrealized gains and losses, credited to the trust fund during the previous fiscal year"

- Although this approach for determining distributions from permanent funds may have been appropriate in 1982 at the time the Act was signed into law, it is in fact not aligned with the manner in which endowments today set their annual distribution rates and does not recognize the long term investment approach used by the Treasury Office

Endowment Distribution Policies

- Endowment fund distribution polices have four primary objectives:
  - Preserve the value of the permanent restricted portion of the fund
  - Hedge against inflation by spending less than the projected annual earning rate
  - Comply with applicable laws on distributions
  - Provide adequate funds to accomplish the mission

- To maintain their tax-exempt status and comply with Federal and State laws, private foundations must pay out in charitable distributions each year an average of at least 5% of the value of their endowment

- University endowments, Community Foundations, and other funds such as the Kresge, Kellogg, and Mott Foundations use the 5% distribution rule

Children's Trust Fund

Historic Distributions

	2005	2006	2007	2008	2009	2010	2011	2012
Balance at 9/30 Previous Year	$21,535,072	$22,341,494	$22,636,975	$21,554,114	$22,318,252	$23,480,497	$23,325,601	$24,851,727
Distributions made under current method	$1,005,000	$1,080,000	$1,459,000	$961,000	$851,000	$899,000	$994,000	$959,000
Distribution Rate	4.6%	4.8%	6.4%	4.5%	3.8%	3.8%	4.2%	3.9%

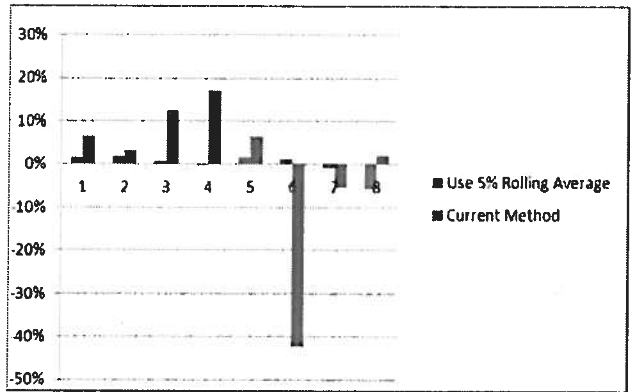
Distributions Applying 4-5% Method

(Realized and Unrealized Gains)

Apply the 4-5% distribution rate to the calculation of the 12 quarter rolling average of the net asset balance at March 31 of each year:

	2005	2006	2007	2008	2009	2010	2011	2012
12 Quarter Rolling Average	$21,939,000	$21,898,000	$22,106,000	$22,311,000	$21,932,000	$22,034,000	$22,459,000	$23,584,000
Distributions @ 5%	$1,097,000	$1,095,000	$1,105,000	$1,116,000	$1,097,000	$1,102,000	$1,123,000	$1,179,000
Distributions @ 4.5%	$987,00	$985,000	$995,000	$1,004,000	$987,000	$992,000	$1,011,000	$1,061,000
Distributions @4.25%	$932,000	$931,000	$940,000	$948,000	$932,000	$936,000	$955,000	$1,002,000
Distributions @ 4%	$878,000	$876,000	$884,000	$892,000	$877,000	$881,000	$898,000	$943,000

Deviation, By Year from the 8 Year Average of Trust Distributions



Impact of the Change in Distribution Rate

- The application of the proposed distribution rate would have increased funds available for program support by $ 705,000 over the past 8 years.

- Using the 12 quarter rolling average methods protects the corpus, smooth's out the wide variations in distributions experienced with the current method, and facilitates improved planning for program development

Proposed Change in Public Act 249

- It is proposed that section (4) of paragraph 21.171 of Public Act 249 to be changed to read as follows:

- **BEGINNING IN FISCAL YEAR 2015 AND CONTINUING THROUGH FISCAL YEAR 2017, ALL MONEY CONTRIBUTED TO THE FUND THAT YEAR, PLUS 4.25% OF THE 12-QUARTER ROLLING AVERAGE OF THE FUND, INCLUDING UNREALIZED GAINS AND LOSSES,** shall be available for disbursement upon the authorization of the state board as provided in section 9 of the child abuse and neglect prevention act, 1982 PA 250, MCL 722.609.
- **ON OCTOBER 1, 2017, PROVIDED THAT THE ROLLING AVERAGE OF THE FUND FOR THE PREVIOUS 12 QUARTERS, INCLUDING UNREALIZED GAINS AND LOSSES, IS AT LEAST $23,500,000.00, THEN, BEGINNING WITH FISCAL YEAR 2018, UP TO 5% OF THE 12-QUARTER ROLLING AVERAGE SHALL BE AVAILABLE FOR DISBURSEMENT AS SPECIFIED IN THIS SUBSECTION.**